

Creating value for the future

Health care, nutrition and high-tech materials are our core competencies. In all three areas Bayer pursues a clear objective: to offer innovative products and services that help people and improve their quality of life, to provide society with high value-added and to create corporate value – for the benefit of our stockholders, our employees, and the community in every country in which we operate.

Our commercial success

2008 was a successful year for Bayer in an increasingly difficult economic environment. Our diversified product portfolio generated sales of €32.9 billion, an increase of 1.6 percent compared with 2007. After taxes and income attributable to non-controlling interests, Group net income was €1.7 billion (see page 53 ff.).

Our stock

Caught up in the global market turbulence in 2008, Bayer stock dropped 33.6 percent over the year. Including the dividend of €1.35 per share paid in May,

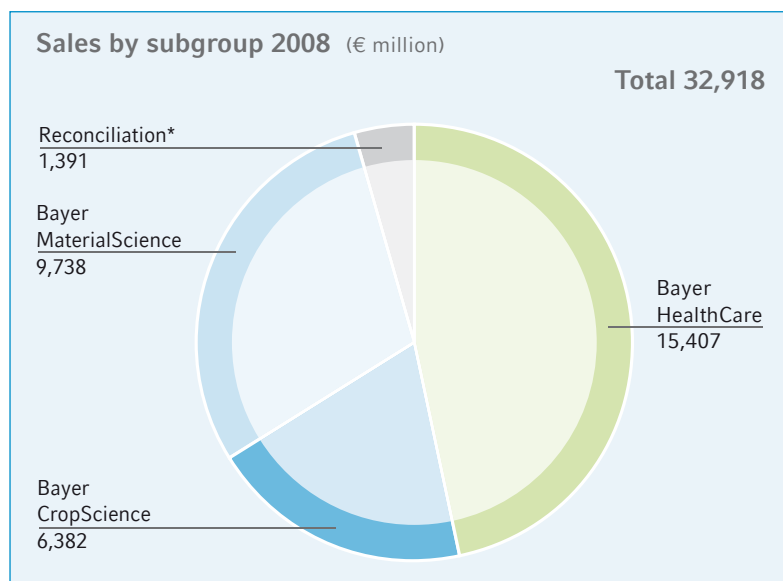
its performance in 2008 amounted to minus 31.9 percent. Despite the drop in the share price, Bayer's performance was in the top third of the DAX 30 companies. The stockholders' equity of the Bayer Group as of December 31, 2008 was €16.34 billion, of which €77 million was attributable to Bayer AG stockholders.

Our stockholder structure continues to be highly international: According to a survey on institutional investors' shareholdings in 2008, 80 percent of the identified capital is held by investors based outside Germany. 43 percent is held by investors whose base is in the United States. Our Board of Management and Investor Relations Department engage in regular dialogue with private and institutional investors. The Annual Stockholders' Meeting, investor conferences, forums for private investors and roadshows are important tools for this.

The U.S. index provider Morgan Stanley Capital International (MSCI) reclassified Bayer stock from the "Diversified Chemicals" category of the "Materials" sector to the "Pharmaceuticals" category of the "HealthCare" sector with effect from July 1, 2008, reflecting our new focus on the health care business.

Our acquisitions, investments and payments to stockholders in 2008

Bayer HealthCare acquired the Eastern European OTC business of Sagmel Inc. for €265 million in 2008. Disbursements of €695 million were also made for the acquisition of the remaining interest in Bayer Schering Pharma AG, Berlin, Germany. Following the



* Not directly allocable to the subgroups, e.g. sales of the service companies

entry of the squeeze-out in the commercial register, the remaining minority stockholders received cash compensation of €98.98 per share for their stock.

Bayer CropScience invested in expansion of herbicide production capacity at its sites in Frankfurt and Knapsack in Germany and in a new formulating plant for insecticides in Hangzhou, China.

Bayer MaterialScience started up the world's largest production facility for diphenylmethane diisocyanate (MDI) in Shanghai, China, in October 2008. This subgroup also started construction of a pilot plant for the production of carbon nanotubes.

Our Annual Report 2008 gives an overview of the main investments and further acquisitions that were made in the period under review.

Our corporate structure

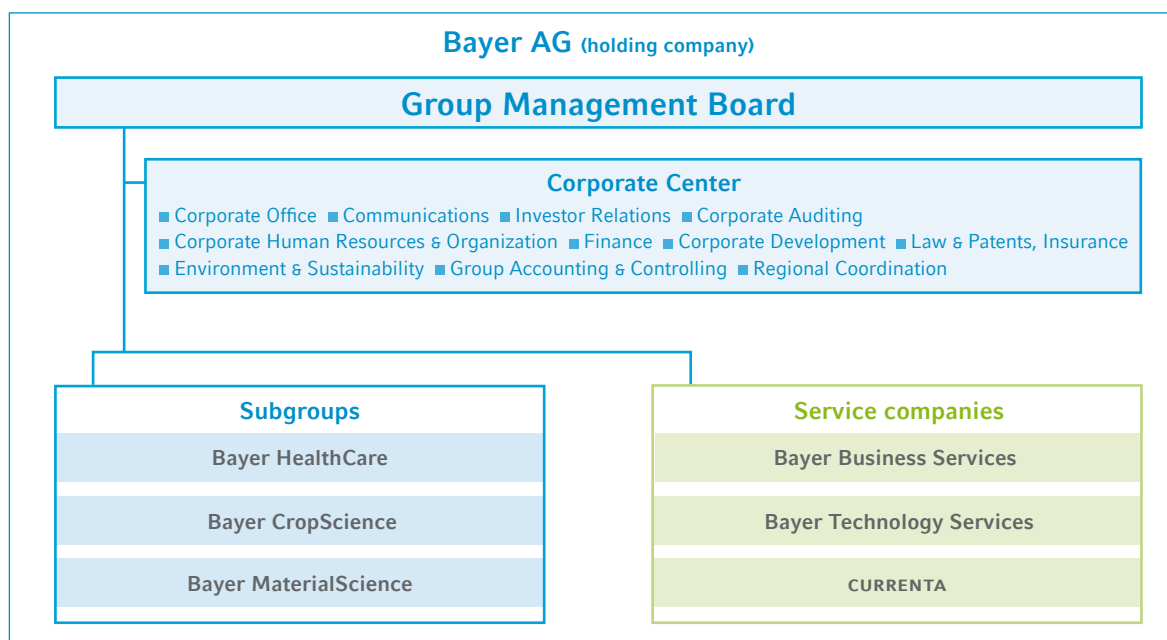
The present Bayer AG traces its roots to a company established in Wuppertal, Germany, in 1863 and has been headquartered in Leverkusen since 1912. Today, the Group comprises around 320 companies on five continents. The Bayer Group is headed by a management holding company. This sets the strategic

framework for the subgroups and service companies, which operate as separate legal entities. The operational business is divided among three subgroups: Bayer HealthCare, Bayer CropScience and Bayer MaterialScience. Our three service companies – Bayer Business Services GmbH, Bayer Technology Services GmbH and CURRENTA GmbH & Co. OHG provide services for both internal and external customers.

Our corporate governance

Under the German Codetermination Act, the Supervisory Board of Bayer AG comprises ten representatives of the stockholders and ten representatives of the workforce. In compliance with its statutory obligations, in 2008 the Supervisory Board fulfilled its role of advising and continuously overseeing the Board of Management.

The ongoing development of corporate governance at Bayer and the amendments to the German Corporate Governance Code in June 2008 were among the central issues discussed by the Supervisory Board in 2008. In December the Board of Management and Supervisory Board renewed their declaration that Bayer AG fully complies with the recommendations of the German Corporate Governance Code.



Our compensation policy

The compensation of the Board of Management basically comprises four components: a fixed annual salary, a short-term incentive award on a yearly basis in relation to a target amount, a long-term incentive award for a three-year period in relation to a target amount, and a company pension plan conferring pension entitlements that increase with years of service. Remuneration in kind and other benefits are also provided, such as the use of a company car for private purposes or reimbursement of the cost of health screening examinations. The fixed salary consists of two parts: a base salary and a fixed supplement. The short-term incentive award for 2008 is calculated partly according to the Group's EBITDA margin before special items, and partly according to the weighted average target attainment of the HealthCare, Crop-Science and MaterialScience subgroups. The latter is based mainly on the subgroups' target attainment measured by EBITDA before special items as well as a qualitative appraisal in relation to the market and competitors.

The compensation of the Supervisory Board is determined according to the provisions of the Articles of Incorporation, which provisions were approved by the Annual Stockholders' Meeting on April 29, 2005. This provides that, in addition to reimbursement of their expenses, each member of the Supervisory Board receives fixed annual remuneration of €60,000 and a variable remuneration component. The variable remuneration component is based on corporate performance in terms of the gross cash flow reported in the consolidated financial statements of the Bayer Group for the respective fiscal year. The members of the Supervisory Board receive €2,000 for every €50 million or part thereof by which the gross cash flow exceeds €3.1 billion, but the variable component for each member may not exceed €30,000. In accordance with the provisions of the German Corporate Governance Code, additional remuneration

is paid to the Chairman and Vice Chairman of the Supervisory Board and for chairing and membership of committees. The Chairman of the Supervisory Board receives three times the basic remuneration, while the Vice Chairman receives one-and-a-half times the basic remuneration. Members of the Supervisory Board who are also members of a committee receive an additional one quarter of the amount, with those chairing a committee receiving a further quarter. However, no member of the Supervisory Board may receive total remuneration exceeding three times the basic remuneration. It has been agreed that no additional remuneration shall be paid for membership of the Nominations Committee. If changes are made to the Supervisory Board and its committees during the fiscal year, members receive remuneration on a pro-rated basis. Details of remuneration received by individual members of the Board of Management and Supervisory Board are disclosed in our Annual Report.

In order to link the variable remuneration of Bayer executives directly to success in the sustainability arena, we have also started to include sustainability criteria in their annual personal performance targets. Our aim is to ensure a close link between sustainability targets and variable compensation components throughout the Group.

Our global workforce

Bayer's success is based on the daily commitment of our 108,600 employees (2007: 106,200) around the world, around 34 percent (2007: 36.8 percent) of whom work at our sites in Germany. Globally, around 74 percent (2007: 76.5 percent) of our employees are in countries that belong to the Organisation for Economic Co-operation and Development (OECD). Almost 26 percent (2007: 23.5 percent) work in a total of 43 non-OECD countries. The largest of these is China, where we have around 6,800 employees, followed by India (3,500) and Brazil (3,300).

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The Bayer Group

The Bayer Group is a global enterprise with companies all over the world. The map shows some of our most important locations.



The Bayer Group in 2008 in figures (values for previous year in brackets)

	North America	Latin America/ Africa/ Middle East	Europe	Asia/Pacific	Total
Sales (€ million)	8,026 (8,161)	4,958 (4,660)	14,549 (14,353)	5,385 (5,211)	32,918 (32,385)
Employees	17,000 (16,800)	15,300 (14,300)	55,500 (56,200)	20,800 (18,900)	108,600 (106,200)
R&D expenditures (€ million)	459 (581)	36 (35)	2,014 (1,836)	144 (126)	2,653 (2,578)
No. of fully consolidated companies	45 (47)	46 (51)	167 (168)	58 (60)	316 (326)

Bayer HealthCare



Arthur Higgins,
Chairman of the
Executive Commit-
tee of Bayer
HealthCare AG

Medical innovations for patients around the globe

Our mission to discover and develop innovative medicines and medical devices is linked with our commitment to promoting access to healthcare worldwide. As a healthcare company, we invest in innovation and life cycle management for products that create value for people and societies around the world. In line with our business goals, we strive to demonstrate excellence in corporate social responsibility.

We are actively engaged in public-private partnerships with non-governmental organizations, governmental institutions as well as other companies devoted to improving global access to medicines. Our research is focused on reducing the global disease burden by targeting severe and chronic diseases.

Our business conduct is governed by our responsibility to mankind, animals and the environment throughout the entire life cycle of our products. As such, we tackle environmental issues that are specific to the health care business, are involved in climate protection activities and have introduced high ethical marketing standards.

Headquarters: Leverkusen (Germany)
Headcount: 53,100 (2008), 51,500 (2007)
Sales: €15.4 billion (2008), €14.8 billion (2007)
Sites: in over 120 countries
Specific directives: Voluntary commitment to health, safety, environment and quality, 2004
Website: www.bayerhealthcare.com

Bayer CropScience



Professor Friedrich
Berschauer,
Chairman of the
Board of Manage-
ment of Bayer
CropScience AG

Second green revolution ensures sustainable global food supply

Agriculture faces major challenges in view of the high demand for renewable raw materials, the limited amount of land available for cultivation, and climate change. In order to ensure a supply of foodstuffs, global agricultural productivity must be further improved. Nothing less than a second green revolution will suffice, following the first one in the 1960s.

As an innovation leader in the crop science sector, we provide farmers with state-of-the-art crop protection and new solutions in the field of crop cultivation and plant biotechnology to safeguard and increase harvests. We are looking to make substantial investments in research so that in the future we can play an even greater role in bringing about a second green revolution by ensuring sustainable agriculture.

Maintaining biodiversity and effective ecosystems form the foundation for sustainable agriculture and number among our firmly established objectives. We are also committed to helping stakeholders, our partners and the public understand the relationships between ecosystems and crop protection and seed technologies. This reflects our goal of reconciling economic, social and environmental interests.

Headquarters: Monheim (Germany)
Headcount: 18,300 (2008), 17,800 (2007)
Sales: €6.4 billion (2008), €5.8 billion (2007)
Sites: in over 120 countries
Specific directives: Voluntary commitment to quality, health, safety and environmental protection (QHSE), 2002; Product Stewardship Policy, 2009
Website: www.bayercropscience.com

Bayer MaterialScience



Patrick Thomas,
Chairman of
the Board of
Management
of Bayer
MaterialScience AG

Solutions for sustainable energy generation

With its innovative materials, Bayer MaterialScience wants to address the issue of rising energy consumption by achieving a balance between ecological and economic demands, and offers numerous approaches to effectively tackle the challenges facing the world in this sector today.

For example, we have developed innovative materials for zero-emissions buildings, lighter cars and efficient wind turbines. Our activities at Bayer MaterialScience are always determined by the fundamental belief that safety, environmental protection, product and process quality and economic efficiency are success factors of equal importance.

We want our operations to help generate sustained added value for the company. That is why we are constantly looking for innovative solutions and new fields of application for existing products. We endeavor to continuously develop our operations, products and services in order to satisfy our customers and stakeholders, and to benefit the company.

Our goals with regard to health, safety, environmental protection and quality are clearly defined and constantly monitored, because we want Bayer MaterialScience to be perceived and respected as an ethically and socially responsible company.

Headquarters: Leverkusen (Germany)
Headcount: 15,100 (2008), 15,400 (2007)
Sales: €9.7 billion (2008), €10.4 billion (2007)
Sites: in over 55 countries
Specific directives: Voluntary commitment to health, safety, environment and quality, initial version 2004, revised version 2008
Website: www.bayermaterialscience.com

Bayer Business Services



Daniel Hartert,
Chairman of the
Executive Board
of Bayer Business
Services GmbH

IT-based solutions for sustainable development

Bayer Business Services is the Bayer Group's international competence center for IT-based services. We focus on offering integrated services in the core areas of IT infrastructure and applications, procurement and logistics, human resources and management services, and finance and accounting.

Our services make business processes faster, simpler, more reliable and more cost-efficient. In this way we make an important contribution to sustainable development at Bayer.

In procurement, for instance, we are adding more environment-friendly vehicles to Bayer's company car fleet, and creating incentives for our customers in Bayer companies to choose low-emission cars. The state-of-the-art video conferencing facilities that we are currently setting up are another example. By eliminating the need for many business trips they help to reduce CO₂ emissions.

Green IT is a key focus for us at present. For example, we are adopting innovative approaches designed to reduce energy consumption and emissions of harmful substances from our data centers. We are also encouraging Bayer employees to practice sustainability in their immediate work environment, for example by using paper-saving settings when printing and switching to the energy-saving mode on IT equipment.

Headquarters: Leverkusen (Germany)
Headcount: 5,460 (2008), 4,588 (2007); both figures excluding local services and trainee pool
Sites: in over 70 countries
Specific directives: Voluntary commitment to Responsible Care by Bayer Business Services, 2003
Website: www.bayerbbs.com

Bayer Technology Services



Achim Noack,
Managing Director
of Bayer Technology
Services GmbH

Technological expertise for environmental protection

Bayer Technology Services (BTS) is the Bayer Group's global technological backbone and a key innovation driver for the development, planning, construction and optimization of processes and plants.

Bayer Technology Services plays a role in meeting the responsibility for Group-wide ecological and social concerns throughout the world. This includes implementing international standards at all sites, as well as developing processes, and planning and constructing plants in line with the latest technology.

We have, for example, developed the Bayer Climate Check, which provides detailed information about all emissions caused by individual production processes. This instrument enables the prioritization of measures aimed at maximizing the potential for reducing emissions, and has already been successfully introduced at more than 40 production plants as part of the Bayer Climate Program. A further 60 plants are to be analyzed in 2009, and the instrument will also be offered to external companies.

Another example is BayOpX[®], the BTS Operational Excellence Program, which is designed to identify further optimization potential, e.g. in raw materials consumption or yield.

Headquarters: Leverkusen (Germany)
Headcount: 2,600 (2008), 2,600 (2007)
Sites: Belgium, Germany, India, Mexico, P.R. China, Switzerland, United Arab Emirates, United States
Specific directives: Health, safety, environment and quality policy in BTS
Website: www.bayertechnology.com

CURRENTA



Dr. Klaus Schäfer,
Chairman of the
Executive Board of
CURRENTA GmbH &
Co. OHG

Operating the chemical park sites responsibly

CURRENTA, a joint company of Bayer and LANXESS, offers services for the chemical industry. These include utilities, waste management, infrastructure, safety and security, analytics and training.

As the manager and operator of CHEMPARK with its sites in Leverkusen, Dormagen and Krefeld-Uerdingen, Germany, we are responsible for maintaining the competitiveness of our sites. We apply efficient technologies and methods and optimize our processes with the aim of ensuring maximum safety, saving on natural resources and also maximizing commercial efficiency. By taking up suggestions submitted by our employees as part of our climate protection program A++ we were able in 2008 to implement ideas with potential savings of around €1 million – corresponding to an annual reduction in CO₂ emissions of around 15,000 metric tons.

We reward and promote the commitment of our employees. In particular, we want to meet the challenges of demographic change through sustainable means. The action we are taking includes not only drawing up continuing education and personnel development concepts but also implementing measures to improve employee health.

Headquarters: Leverkusen (Germany)
Headcount: 5,500 (2008), 6,000 (2007); both figures excluding trainees
Sites: Leverkusen, Dormagen, Krefeld-Uerdingen (all Germany)
Specific directives: Voluntary commitment to Responsible Care of Bayer Industry Services, 2003; Policy on health protection, safety, environmental protection and quality, 2004
Website: www.currenta.com